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THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE
STATE HOUSE BOSTON 02133

L. EDWARD LASHMAN, JR.
SECRETARY

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August 15, 1989

Contact: Charlie Baker
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STATEMENT OF L. EDWARD LASHMAN, JR.

It is the duty of the Administration to issue updated revenue projections on August 15th of each year. This year we have revised our FY90 projection downward by $170 million and issued our first projection for FY91 which calls for just 6.3% growth.

In adopting the most conservative numbers developed by the Department of Revenue, we are following what I believe to be a prudent, if painful, course that will insure that our budget remains in balance. The signs are evident here in Massachusetts, in our sister states across the Northeast, and even on the national horizon, that the economy is slowing. Led here by a falloff in home sales and joined by a serious national decline in car sales, we have to be prepared to see an impact on business profits in coming months. While the diversity and innate strength of the Massachusetts economy should allow us to weather this storm, the impact will be sharply felt in terms of the revenues we have to fund vital state services through at least FY91.

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August 15, 1989

The Honorable George Keverian
Speaker of the House of Representives
State House, Room 358
Boston, Massachusetts 02133

ALSO SENT TO: SEN. PRESIDENT
HOUSE WAYS + MEANS
SEN. WAYS + MEANS

Dear Mr. Speaker:

In accordance with the General Laws, I have today transmitted to the General Court, constitutional officers and executive offices, our estimate of revenues for fiscal years 1990 and 1991. Based on revenue collections year-to-date, the Department of Revenue recommends that the budget estimate of FY90 tax revenues be revised downward by $172 million, to $9.203 billion for DOR collections and $9.267 billion for all tax revenues. The Department of Revenue further recommends that the budget estimate for FY91 DOR tax revenues be $9.781 billion, for total growth of $578 million. These estimates have serious implications for the Commonwealth in both FY90 and FY91.

Because it both overstated revenue and understated entitlement spending, the FY90 Appropriations Act passed in June by the Legislature did not constitute a balanced budget. The Governor redressed this imbalance through a combination of vetoes and withheld allotments totalling $491 million when he signed the budget on July 13. These spending cuts, though necessary to balance the budget, represent very serious reductions in state and local services.

Unfortunately, today's reduction in the FY90 revenue estimate means that further action will be necessary. But there is no need for further cuts in services or aid to cities and towns provided that the Legislature enact statutory savings measures or additional revenues. Nevertheless, unless we demonstrate a commitment to living within our means, the Commonwealth's ability to meet its short and long term financing needs will be severely compromised, to the detriment of all public services.

Therefore, I will file at the Governor's request a package of legislative savings and non-tax revenue measures that will more than cover the present revenue shortfall. However, unless the Legislature acts quickly to enact sufficient savings or revenues it will be necessary to implement additional reductions in order to meet the commitment to a balanced budget. Delay simply compounds the problem.

The Department of Revenue's revised FY90 estimate is cautious and some analysts still anticipate higher revenues. However, it would be imprudent to spend revenue that is clearly at risk. Therefore, there is no alternative to the course of action that I have described.

Sincerely,

for

L. Edward Lashman, Jr., Secretary
Administration and Finance

Massachusetts Department of Revenue

NEWS RELEASE

For Release: Contact:

August 15, 1989 Betsy Houghteling

FY90 DEPARTMENTAL REVENUE ESTIMATE REDUCED BY $172 MILLION: SOFT SALES AND CORPORATE PROFITS SEEN CONTINUING INTO FY91.

Continued sluggish sales tax receipts coupled with a slowdown in corporate profits have prompted the Massachusetts Department of Revenue (DOR) to lower the FY90 Departmental tax revenue estimate to $9.203 billion -- a $172 million reduction from the projection carried in the FY90 budget as signed. (Departmental tax revenue includes all taxes collected by DOR and broken out on its monthly "White sheets"; when slight increases in non-DOR taxes, such as Beano, racing and bazaars are factored in, the overall reduction in total tax revenues is $170 million.) This revised estimate, which has been accepted by the Executive Office of Administration and Finance as the new basis for the FY90 budget, calls for growth of 5.1%, or $443 million. The previous $9.375 billion estimate had already required Governor Dukakis to veto or withhold $491 million worth of spending approved by the Legislature, including $210 million in local aid.

"The major areas of concern are clearly the sales tax, where we are dropping the estimate by $73 million, and the corporate excise, where we have come down by $122 million," Revenue Commissioner Stephen W. Kidder explained, adding that increases in some other areas leave the Department with the net reduction of $172 million. (A complete list of the revisions is attached.)

Along with revising the FY90 estimate, the Administration today issued its first revenue estimate for FY91; like the revised FY90 figure, the FY91 estimate is based on a DOR recommendation. For FY91, DOR is forecasting growth of 6.3% or $578 million. This projection, although subject to extensive revisions before the FY91 budget goes into effect next July 1st, is an important tool to use in preparing that budget.

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"During the last twelve months, we have seen a significant slowing of the economy. Led by a sharp decline in the sales tax, particularly since last January, we have to assume that it will work its way into corporate tax payments as well," Kidder said.

Kidder noted that these estimates do not include breakouts for the $740 million that will come in during those years from the temporary tax increase. "Since that money can be only used to pay off bonds from FY89, it can not be factored into either the FY90 or FY91 budget decisions that face the Administration. Our estimates have to reflect what can be used to pay the current costs of government programs." When DOR issues new benchmarks based on this new estimate, however, it will include information on how much the Commonwealth expects to take in each month to pay off the bonds.

"At this point, we have the most conservative estimate. Our reading of the economy, not just here but across the Northeast as well, argues for a cautious approach early in the year if we are to avoid much greater pain down the road," Kidder concluded.

FY90 REVISED TAX REVENUE ESTIMATE
August 15, 1989

Tax and Totals	FY89 (TOTAL)	Original Budget Estimate FY90	% CHG FROM FY89	Revised Estimate FY90	% CHG FROM FY89	$ DIFF. from ORIGINAL
Income: Estimated Payments	$ 791.8	$ 830.0	$ 4.8%	$ 840.0	6.1%	10.0
Withholding	3,459.3	3,710.0	7.2	3,695.0	6.8	-15.0
Returns and Bills	572.0	585.0	2.3	585.0	2.3	0.0
Refunds	536.4	555.0	3.5	500.0	-6.8	-55.0
NET	$ 4,286.7	$ 4,570.0	$ 6.6	$ 4,620.0	7.8	50.0
Sales: Regular	$ 1,445.9	$ 1,540.0	$ 6.5	$ 1,505.0	4.1	-35.0
Meals	296.9	320.0	7.8	307.0	3.4	-13.0
Motor Vehicles	341.2	355.0	4.1	330.0	-3.3	-25.0
TOTAL	$ 2,083.9	$ 2,215.0	$ 6.3	$ 2,142.0	2.8	-73.0
Corporations	$ 887.1	$ 1,075.0	$ 21.2	$ 953.0	7.4	-122.0
Motor Fuels	306.9	312.0	1.7	312.0	1.7	0.0
Cigarette	158.6	155.0	-2.3	153.0	-3.5	-2.0
Insurance	294.6	298.0	1.2	297.0	0.8	-1.0
Estate and Inheritance	258.6	273.0	5.6	265.0	2.5	-8.0
Alcoholic Beverages	75.8	78.0	3.0	74.0	-2.3	-4.0
Banks: Commercial	125.2	120.0	-4.1	120.0	-4.1	0.0
Savings	98.3	100.0	1.7	92.0	-6.4	-8.0
Public Utilities	72.2	65.0	-10.0	68.0	-5.9	3.0
Room Occupancy	57.9	65.0	12.3	61.0	5.4	-4.0
Deeds	46.1	48.0	4.2	45.0	-2.3	-3.0
Misc. Dept.	8.3	1.0	-87.9	1.0	-87.9	0.0
TOTAL DEPARTMENT	$ 8,760.1	$ 9,375.0	$ 7.0%	$ 9,203.0	5.1%	-172.0
Racing	32.7	29.1	-10.9	31.0	-5.1	1.9
Bingo	5.1	5.5	8.6	5.0	-1.3	-0.5
Raffles/Bazaars	1.3	1.5	19.1	1.2	-4.7	-0.3
Division of Insurance	7.0	5.9	-15.3	7.5	7.7	1.6
Re-employment Fund	10.4	19.0	82.3	19.0	82.3	0.0
TOTAL FOR BUDGET	$ 8,816.4	$ 9,436.0	$ 7.0%	$ 9,266.7	5.1%	-169.3

Source: Massachusetts Department of Revenue

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Refunds	536.4	555.0	3.5	500.0	-6.8	-55.0
NET	$ 4,286.7	$ 4,570.0	$ 6.6	$ 4,620.0	7.8	50.0
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TOTAL FOR BUDGET	$ 8,816.4	$ 9,436.0	$ 7.0%	$ 9,266.7	5.1%	-169.3

Source: Massachusetts Department of Revenue